

Beginning Farmer Tax Credit: Frequently Asked Questions

1) WHAT AGRICULTURAL ASSETS ARE ELIGIBLE AND INELIGIBLE FOR THE TAX CREDIT?

Agricultural land, improvements and depreciable property (machinery, equipment and breeding livestock) used for farming purposes. The agricultural assets subject to the lease must be located in the state of Iowa.

The rental of a rural residence is not permitted. If a residence is part of the lease agreement, the lease value of the residence should be specifically identified so it can be excluded from tax credit calculations. The rental of farmland that is enrolled in CRP is not permitted. If CRP land is part of the lease agreement, the lease value of the CRP ground should be specifically identified so it can be excluded from tax credit calculations.

Feeder cattle, feeder pigs, feeder lambs, feeder chickens or feeder turkeys do not qualify as depreciable property and as a result, are not eligible under the program. Other animals such as horses or those classified as “exotic” are eligible if they are a viable “for profit” farming operation, are depreciable property under IRS code and not a “hobby farm.”

2) WHAT IS THE TERM OF THE TAX CREDIT?

The lease term must be a minimum of two years and a maximum of five years. A tax credit certificate will be issued for each year of the lease by January 31st. An eligible beginning farmer will continue to be considered an eligible beginning farmer for the term of the lease, even if the eligible beginning farmer's net worth exceeds \$366,324 during the term of the lease. Upon expiration of the lease, the asset owner and beginning farmer may re-apply for the tax credit program through the application and approval process. The new project will be approved as long as the beginning farmer continues to meet the net worth criteria and submits a new application and supporting documentation.

The tax credit is a non-refundable credit, therefore, any credit in excess of the taxpayer's liability for the tax year may be credited to the tax liability for the following five years or until depleted, whichever is earlier.

3) CAN THE AGRICULTURAL ASSET OWNER HAVE MORE THAN ONE TAX CREDIT IF THEY LEASE TO MORE THAN ONE BEGINNING FARMER?

Yes, an agricultural asset owner may obtain a tax credit for each lease they have with a qualified beginning farmer.

4) WHAT TYPE OF LEASE IS ACCEPTABLE?

The written lease should specify the agricultural assets subject to the lease, the location of the property, the volume of the lease (i.e., number of acres, pieces of equipment, number of animals) and the lease rate or terms. The lease should also specify the term of the lease and terms of payment under the lease for each year of the lease. Flex

leases or leases with complex terms will be reviewed by the IADD Executive Director, prior to going to the board to confirm mutual understanding on how IADD will do the tax credit calculation.

A commodity share lease does not have to be the traditional 50/50 lease terms. (Several good lease templates are available on the Iowa State University Ag Decision Maker web site.)

The lease term shall be for at least two years, but not more than five years. An existing lease with an eligible beginning farmer is eligible if it meets the minimum two-year and maximum five-year term (upon application). The tax credit may be renewed at the end of the lease term through re-application and approval.

The agricultural assets should be leased at a rate which is not substantially higher or lower than the market rate for similar agricultural assets leased within the same community, as determined by the IADD. Rental rate adjustments cannot be made arbitrarily. Rate adjustment must be specified in the initial lease agreement with the actual rental rates for each year. The Authority reserves the right to review all agreements and determine that the terms of the lease are beneficial to the beginning farmer, and not an attempt to maximize the taxpayer benefit under the program.

5) WHAT IF THE AGRICULTURAL ASSET OWNER AND THE BEGINNING FARMER AGREE TO LEASE MODIFICATIONS AFTER APPROVAL?

Modifications to the original lease are only allowed if there is a life changing event, for example, death, divorce, name change or address change. If a life changing event occurs, immediately notify the IADD of the change. In these instances, no fees will be charged. The lease cannot be transferred or assumed by another person or entity unless an IADD "Request to Adjust Lease Terms and Conditions" is submitted to and approved by the IADD. Such as: the leased asset being sold and the new owner is willing to continue the original lease terms. In these circumstances, a modification fee of \$100 will be due. Please notify the IADD immediately in the case of death, change of ownership, beginning farmer no longer a resident of Iowa, name change, address change, etc.

6) WHAT IF THE AGRICULTURAL ASSET OWNER AND/OR BEGINNING FARMER TERMINATES THE LEASE AGREEMENT?

An owner or beginning farmer may terminate a lease, as provided in the lease agreement or by law. The owner or beginning farmer must immediately notify the IADD of the termination and the IADD shall not issue a tax certificate to the owner for any subsequent years remaining on the lease.

If the IADD determines that the taxpayer is not at fault for the termination, any prior tax credit is allowed. The taxpayer may apply for and be issued another tax credit for the same agricultural assets for any remaining tax years for which a certificate was not issued.

If the IADD determines that the taxpayer is at fault for the termination, any prior tax credits claimed will be recaptured and the amount of the tax credits claimed, plus penalties and interest will be immediately due and payable to the Iowa Department of Revenue. If a taxpayer does not immediately notify the IADD of a termination, the taxpayer shall be deemed at fault for the termination and could be subject to recapture of tax credits redeemed and the tax credit project to be withdrawn.

7) WHO CAN QUALIFY TO OBTAIN THE TAX CREDIT? (Asset Owner Requirements)

May be an individual person, Partnership, LLC, S-Corp, C-Corp, Estate or Trust, who may acquire or otherwise obtain or lease agricultural land in the state of Iowa, pursuant to Chapter 9H or 9I – Code of Iowa. This is commonly known as the “Corporate Farming Law.”

If the agricultural asset owner is a Partnership, LLC, S-Corp, C-Corp, Estate or Trust, the tax credit will be issued to the “entity”, and their tax accountant will distribute the tax credit in the pro-rated share of those who own the entity. It must be specifically requested to be issued to the individuals of the “entity”. An individual may claim the tax credit of a Partnership, LLC, S-Corp, Estate or Trust by specifically electing to have the income taxed go directly to the individual verses the entity. The amount of tax credit claimed by the individual shall be based upon the pro-rated share of the individual’s earnings from the Partnership, LLC, S-Corp, Estate or Trust. A copy of the Articles of Incorporation, Partnership Agreement, Trust Agreement, etc. must be provided with the application. This document should indicate the financial beneficiaries of the entity, their contact information, social security number and their percentage of ownership.

The agricultural asset owner cannot be a party to a pending administrative or judicial action, including a contested case proceeding under Chapter 17A, Code of Iowa, relating to an alleged violation involving an animal feeding operation regulated by the Iowa Department of Natural Resources, regardless of whether the pending action is brought by the Department of the Attorney General. The agricultural asset owner cannot be classified as a habitual violator for a violation of state law involving an animal feeding operation, as regulated by the Iowa Department of Natural Resources.

The taxpayer cannot be at fault for terminating a prior lease.

8) WHO IS AN ELIGIBLE BEGINNING FARMER?

A qualified beginning farmer must be of low or moderate net worth. Code of Iowa 175.2.12 defines this as not more than \$691,172. This amount is adjusted each January 1st.

If the beginning farmer is a partnership, family farm corporation or a family farm limited liability company, the aggregate net worth of each partner, shareholder or member and their co-applicants and minor children, may not exceed \$691,172. All partners, shareholders or members must also be residents of the state of Iowa.

The beginning farmer must have sufficient education, training and/or experience in the type of farming for which the tax credit will be issued. The beginning farmer or a third party shall self-certify that the beginning farmer has sufficient education, training and/or experience through a background letter, which shall accompany the application. Such certification is subject to review and confirmation by the IADD.

The beginning farmer has or will have access to adequate working capital, farm equipment, machinery or livestock. The use of farm equipment can be obtained in exchange for the beginning farmer labor. This will need to be specified in the background letter. This, again, will be self-certified by the beginning farmer or third party. This certification is subject to review and confirmation by the IADD.

The beginning farmer shall materially and substantially participate in farming the assets, subject to the lease. If the beginning farmer is a partnership, family farm corporation or family farm limited liability company, each partner, shareholder or member shall materially and substantially participate in farming. In addition, the beginning farmer shall assume the financial risk associated with operating the agricultural asset, subject to the lease.

The agricultural assets subject to the lease shall only be used for farming by the qualified beginning farmer.

If the beginning farmer is found to be in violation of these requirements, a tax credit will not be issued for subsequent years and the matter will be referred to the Iowa Department of Revenue for potential administrative or judicial review.

9) HOW DO I APPLY FOR THE TAX CREDIT?

A beginning farmer and agricultural asset owner must prepare and submit [Beginning Farmer Tax Credit \(BFTC\) Application](#) to the IADD. The application should be completed by the beginning farmer and the agricultural asset owner, and submitted directly to the IADD. The completed application should be accompanied by the beginning farmer's current financial statement and background letter, and a copy of the agricultural asset lease.

Additional supporting information is needed with the application and this information is listed on the application instructions, in order to document ownership of the land and to certify the acres being leased.

The land owner must provide a copy of a "USDA Farm Service Agency Abbreviated 156 Farm Record" form that lists the same acres subject to the lease, the beginning farmer listed as the operator and the asset owner listed as the owner.

If the agricultural asset being leased is owned by a Partnership, Corporation, LLC, Estate or Trust, a copy of the partnership agreement, articles of incorporation and trust agreement must be provided. A list of the partners or shareholders must also be provided along with their percentage of ownership in the entity, contact information and social security number to issue the tax credit at their pro-rated share.

If the beginning farmer will operate the farm as a partnership or corporation, a copy of the articles of incorporation or partnership agreement must be provided.

10) WHAT TYPE OF FINANCIAL STATEMENT IS REQUIRED?

A copy of the beginning farmer's current financial statement must be completed to show his net worth, within 30 days prior to submission of the application. The financial statement needs to be witnessed by a bank officer and signed by all applicants and lender. If the beginning farmer and/or co-applicant are involved in a business, partnership, corporation, etc., either related or unrelated to his/her farming operation, a financial statement from this entity must also be submitted with the application.

If the beginning farmer is a partnership, family farm corporation, or family farm limited liability company, each partner, shareholder or member shall submit a personal financial statement, in addition to a statement of the operating entity.

Total Assets – Total assets shall include, but are not limited to the following: Cash; crops or feed on hand; livestock held for sale; breeding stock; marketable bonds and securities; securities (not readily marketable); accounts receivable; notes receivable; cash invested in growing crops; net cash value of life insurance; machinery equipment; cars and trucks; farm and other real estate, including life estate and personal residence; value of beneficial interest in a trust; government payments or grants; and any other assets.

All assets shall be valued at fair market value by the beginning farmer's lender. The value shall be what a willing buyer would pay a willing seller in the locality.

Total assets shall not include items used for personal, family or household purposes by the applicant, but in no event shall any property be excluded, to the extent a deduction for depreciation is allowable for federal income tax purposes. A deduction of 10 percent may be made from fair market value of farm and other real estate.

The beginning farmer and their lender shall complete a true and accurate statement and the above adjustments will be made by the IADD, upon receipt of the application.

Total Liabilities – Total liabilities shall include but are not limited to the following: accounts payable; notes or other indebtedness owed to any source; taxes; rent; amount owed on real estate contracts or real estate mortgages; judgments; accrued interest payable; and any other liabilities.

Liabilities shall be determined on the basis of generally accepted accounting principles.

11) WHAT IS THE BACKGROUND LETTER?

The background letter will assist the IADD and its board in evaluating the project and the application. The letter should explain the beginning farmer's background, with respect to his or her education and experience in the type of farming operation for which a tax credit is sought. The letter should outline the beginning farmer's access to machinery if the loan is for land or his or her access to land if the loan is for agricultural improvements or depreciable agricultural property. The letter should also state where the beginning farmer will obtain operating capital, if necessary, along with contact information for the lender. The letter should also give a brief background of the farming operation, subject to the lease.

12) WHEN AND HOW WILL THE APPLICATIONS BE APPROVED?

Completed applications and all supporting documentation received by the 1st of the month will be reviewed and considered by the IADD's Board at that month's board meeting. Applications received after the 1st of the month will be reviewed at the next month's board meeting. Incomplete applications could delay the application being considered by the board. If the 1st falls on a Saturday or Sunday, then applications will be due on the preceding Friday.

Applications must be received no later than September 1st to be considered by the IADD and be eligible to receive a credit for that year. If the application is incomplete, the beginning farmer and the asset owner will be requested to provide the needed information. There will be one month (30 days) allowed to submit the needed information, after which the file will be denied.

13) ARE THERE ANY COSTS OR FEES WITH THE PROGRAM?

Since the IADD does not receive any state or federal funding or other monies to support the program, a \$200 application fee, as well as the following, is to be paid at the time of application:

Cash Rent and Flex Lease- \$50/year processing fee is required at the time of application to be considered by the board. This fee may be paid by either the beginning farmer or the agricultural asset owner.

Example: If you are submitting an application with a 3-year lease, your fee to enter the program will be:
 $\$200 \text{ (Application fee)} + \$150 (\$50 \times 3 \text{ years of servicing}) = \350

Crop Share Leases- \$100/year processing fee is required at the time of application to be considered by the board. This fee may be paid by either the beginning farmer or agricultural asset owner.

Example: If you are submitting an application with a 3-year lease, your fee to enter the program will be:
 $\$200 \text{ (Application fee)} + \$300 (\$100 \times 3 \text{ years of servicing}) = \500

No money will be refunded- If the application is denied through IADD Board action, or due to insufficient information provided after IADD's request and the 30-day grace period, OR if the application is approved and later withdrawn by the beginning farmer or asset owner, no monies will be refunded.

Partial Refund of Fees: If the additional information cannot be provided within 30 days and the beginning farmer or the asset owner voluntarily withdraw their application, the \$200 application fee will be retained and the yearly service fees will be refunded.

14) CAN I RENT FROM A RELATED PERSON?

Yes, you may rent from a related person, such as a father or grandfather. Those transactions could be subject to additional scrutiny, however. The background letter submitted with related party transactions should be very specific as to the involvement of the related party and sources which can independently confirm the legitimacy of the transaction should be identified.

15) HOW AND WHEN WILL THE TAX CREDIT CERTIFICATE BE ISSUED?

Cash Rental and Flex Contract – After the approval of a cash rental agreement, the IADD will issue an approval letter and summary which will specify the terms of the approval (if any). Tax credit certificates will be issued by January 31st of the following year, assuming all requirements have been met.

Share Agreement Contract – After approval of a share agreement contract, the IADD will issue an approval letter and summary which will specify the terms of the approval (if any). Tax credit certificates will be issued by January 31st of the following year, assuming all requirements have been met.

16) HOW DO I REDEEM THE TAX CREDIT?

The taxpayer should complete their Iowa State Tax Return as normal. The taxpayer should supply their tax preparer with the tax credit certificate issued by the IADD. The tax preparer should complete State of Iowa Tax Form IA148 – Tax Credits Schedule and attach it to the taxpayer's tax return. If the taxpayer is an "entity", they should supply their tax preparer with the tax certificate issued by the IADD and the pro-rated percentages of the partners and/ or shareholders.

Assistance or questions on how to redeem your tax credit can be obtained from the Iowa Department of Revenue Taxpayer Services at 515.281.3114, or visit their web site www.iowa.gov/tax

17) WHAT IS REQUIRED IN FUTURE YEARS AFTER APPROVAL?

Contact the IADD with any changes to the contact information, such as: name, address, telephone number, email address or changes in the lease. Should either party become aware of any violation of the lease, violation of the

Code of Iowa or the Administrative Rules of the program, they shall immediately notify the IADD. Failure to do so could result in disallowing of previous tax credits received, as well as future tax credits and the recapture of the tax credits redeemed, plus penalties and interest by the Iowa Department of Revenue.

18) THE FOLLOWING PROCEDURE WILL BE USED TO CALCULATE THE TAX CREDIT AMOUNT REGARDLESS OF WHETHER THE CROP IS SOLD AT HARVEST OR STORED FOR LATER SALE. LIVESTOCK SHARE LEASES WILL CONTINUE TO USE THE ACTUAL DOLLAR AMOUNT OF PRODUCT SOLD FOR THE TAX CREDIT CALCULATION.

Originally, it was anticipated that IADD would collect actual yield and sale price documentation on land subject to a crop share agreement. This information would be used to determine the tax credit amount the landowner had earned. It became obvious that this method is burdensome for both parties, and presents an unintended opportunity for misuse of the program. As the direct submission of actual yield data on the part of the landowner could be fairly paperwork intensive. In addition, there is no standard way of documenting actual yield data, short of requiring all production to go across certified scales. Finally, there exists a possibility of inaccurate yield reporting in order to obtain an increased tax credit.

Effective January 1st, 2013, IADD Board approved the following method:

The Beginning Farmer Tax Credit Program has become more popular with beginning farmers who cannot afford to purchase land and retired farmers who are interested in leasing their land to a beginning farmer. IADD has an annual allocation determined by the Iowa Legislature. To ensure that all applicants have the opportunity to apply for the program, the following method will be used in the calculation of Crop Share Leases:

The agricultural asset owner will receive a tax credit of 17 percent of the value of the owners' share of the product under a share agreement. All acres will be allocated with 50% to corn and 50% to soybeans, unless specifically identified as other crops in the lease terms. These will be the number of acres consistently used for the entire term of the tax credit project. All tax credit calculations will be completed with the respective county's historical average T-yield data and the previous year's RMA fall price. No harvest reporting will be needed.

This information is obtained at this web address:

<http://webapp.rma.usda.gov/apps/ActuarialInformationBrowser/Default.aspx>

A PDF link with the [county's historical T-yield information](#) will be provided annually on IADD's website.

Cash Rent and Flex Agreements

The agricultural asset owner will receive a tax credit of 7 percent of the rental income received under a cash rental agreement or on the cash rent base of a flex lease, no additional credit will be calculated or issued on the flex terms.

Example – A beginning farmer leases 150 acres of crop ground for \$150 per acre. This totals \$22,500 in gross rental income for a tax credit of \$1,125 ($\$22,500 \times 5.0\%$).

Crop Share Agreement

Crop Share Example – A beginning farmer leases 160 acres of crop ground in Clay County on a 50/50 share basis. The Clay County T-yield for 2012 was 182.67 bushels per acre. Total crop is 29,227.2 bushels. The owner's share is 14,613.6 bushels. The 2012 posted RMA Iowa fall price for corn was \$6.82 per bushel. This results in a tax credit of \$14,950. ($14,613.6 \text{ bushels} \times \$6.82 \text{ per bushel} \times 15.0\%$)